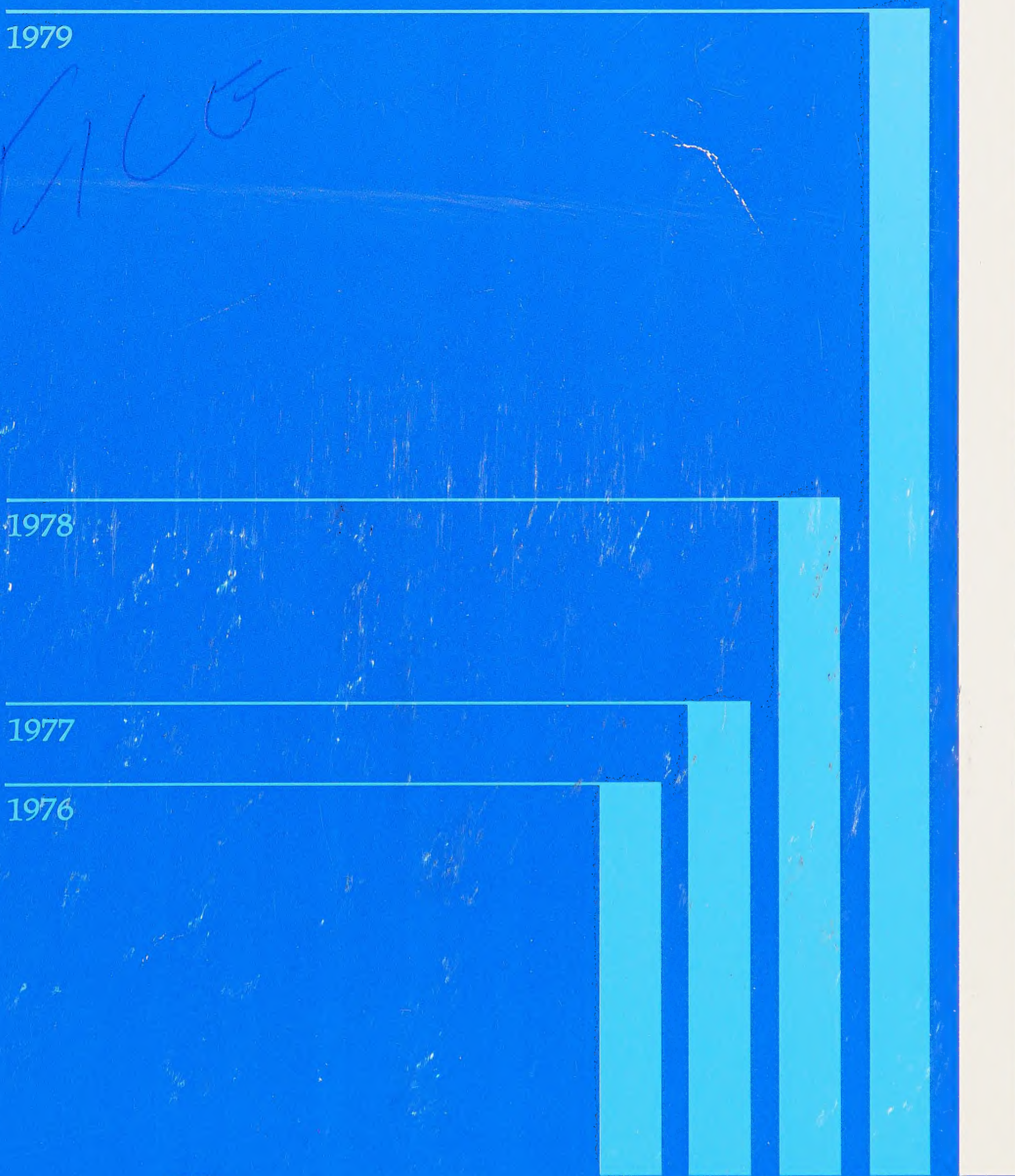
1980 Standard Trustco Annual Report



In 1980 the Standard Trust group of companies was reorganized.

Standard Trustco Limited is now the parent holding company. Chartered in Ontario, it has broader powers than a trust company and it provides overall supervision, financial control, planning and direction to the following:

Standard Trust Company, a federally chartered trust company, offers a broad range of financial services through 18 branches in Ontario, Saskatchewan and Alberta. It is also licensed to do business in British Columbia, Quebec and Newfoundland.

Standard Loan Company, offers debentures and mortgages through the Standard Trust branch network.

Standard Trustco Development Corporation Limited is active in real estate development, both nationally and internationally.

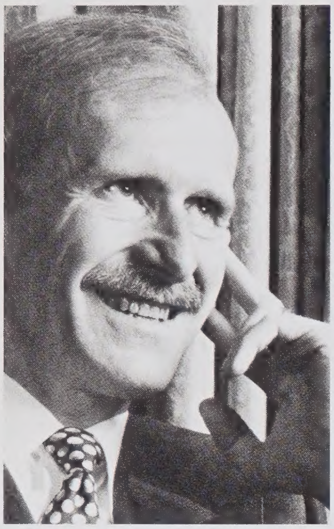
Stanco Development Corp. is active in real estate development in the United States.

Highlights*

	1980	1979	% change
Revenue	$ 35,632,368	$ 23,387,654	52%
Expenses	33,937,794	22,135,226	53%
Net operating income	2,010,033	1,304,728	54%
Net income	1,684,712	1,316,288	28%
Total assets	$350,962,419	$252,696,837	39%
Total mortgages	256,939,630	205,384,633	25%
Total securities	43,729,788	31,112,762	41%
Total deposits	294,382,181	226,853,483	30%
Shareholders' equity	13,222,960	12,294,339	8%
Dividends paid on common shares	$500,320	$250,198	100%
Weighted average number of common shares outstanding	523,603	417,314	25%
Per common share			
Net operating income	$ 3.21	$ 2.72	18%
Net income	3.22	2.74	18%
Dividends paid	1.00	0.60	67%
Shareholders' equity	22.67	19.67	15%

*Figures for 1979 are those of Standard Trust Company.

To our shareholders



Brian R. O'Malley

Your Board of Directors is pleased to submit the Company's Annual Report together with the financial statements for 1980.

This was another successful year for your Company. Net operating income of $2 million (before gain on sale of securities and minority interest) represents a 54% increase over 1979. Net operating income per common share increased 18% to $3.21 compared with $2.72 in 1979. While it was thought that 1979 was the most difficult year faced by the trust and loan industry in decades, 1980 proved to be even more difficult. Most companies struggled to keep earnings at levels achieved in 1976 and 1977. In these circumstances the results achieved by your Company were most satisfying.

In keeping with Company policy, the substantial increase of $98.3 million in assets was carefully matched against liabilities of similar terms. The rigid adherence to this basic principle of operation has been a most important factor in our consistent above-average profit performance. We estimate that this year's results will place us in the top 15 in earnings and the top three in return on common shareholders' equity in the trust industry.

Our asset growth this year was ahead of target and, of most importance to our shareholders, we reached our goal for return on common shareholders' average equity in 1980 with a measure of 15.4%. Our first new corporate goal is to increase the return on common shareholders' equity to 18% over the next five years. The second corporate goal in our new operating plan is to increase total assets of the Company to $1 billion by 1986.

Corporate Reorganization This single most important event of the year occurred when an offer was made to the shareholders of Standard Trust Company to exchange their shares for new common shares of Standard Trustco Limited. The purpose was to reorganize the Standard Trust group of companies by establishing Standard Trustco Limited as the parent holding company. The offer was completed on November 24, 1980 and 99.44% of Standard Trust Company shares were exchanged. Your Directors believe that the future expansion and prosperity of the Standard Trust companies can be best achieved through this corporate structure which has broader powers than those available to a trust company.

Share Capital Through a rights offering to shareholders in April, Standard Trust Company successfully completed the sale of 142,224 new common shares. Total proceeds of this offering were $3,342,264. The Standard Trust Dividend Reinvestment and Share Purchase Plan was well received by shareholders and during the year 12,328 new common shares were issued on receipt of $329,522 from shareholders under the Plan. This represents 66% of the dividends paid to common shareholders in 1980. A new Dividend Reinvestment and Share Purchase Plan will be made available to shareholders of Standard Trustco Limited.

Standard Trustco Limited is in the process of making arrangements to place 100,000 floating rate Series A Preference Shares with a par value of $20.00 per share. The shares will be issued during the first quarter of 1981 and will provide a significant part of your Company's capital needs for the year.

In March your Directors approved a 67% increase in the dividend from 60¢ to $1.00 a common share. This increase is in keeping with the policy of your Board to improve the return to shareholders, as rapidly as considered prudent, to a level consistent with the dividend payout ratio of the trust industry.

Real Estate Development In August the acquisition of a 60% interest in Maurice H. Rollins Construction Limited was completed. Rollins is one of the largest developers of residential and commercial real estate in Eastern Ontario with total assets in excess of $25 million. The land holdings of this Company are located primarily in the larger urban centres of Eastern Ontario. In addition to the anticipated profit contribution, we expect Rollins will generate mortgage business for the trust company.

Standard Trustco Development Corporation Limited acquired several properties during the year. The most significant is a time-sharing development in Pompano Beach, Florida. This property was acquired at a most advantageous price, and reservations for sales total almost $3 million.

Precious Metals Following an extensive analysis of the precious metals business a decision was taken to provide this service. In December, Mr. Trevor Pereira was appointed manager of the precious metals department. Prior to joining the Company, Mr. Pereira was Chief Bullion Dealer of a major chartered bank. During the first quarter of 1981 we anticipate that the Company will commence activities in the precious metals markets.

Outlook Uncertainty was one of the most common words used in 1980 to describe business conditions and it appears there will be no change in 1981. There is little reason to believe that the climate will improve perceptibly during the year and this will make 1981 another difficult year for the trust and loan industry. We expect that there will be continued rationalization of the industry during the year with more mergers and acquisitions taking place. However it seems that your management functions best in this environment. The environment we anticipate for 1981 will present opportunities for new business and acquisitions and your management is prepared to act when suitable opportunities develop.

We will achieve our Company goals by putting first the needs of our customers. We have confidence in the ability of the men and women in our employ, who are dedicated to meeting these needs. The most important resource of a financial services company is people and the quality of our staff continues to grow. We are indebted to our fine staff for their performance.

Shareholders, correspondents and customers are invited to the annual meeting which will take place in the Territories Room, Royal York Hotel, Toronto, Ontario on Wednesday, February 18, 1981 at 2:30 p.m. local time.

On behalf of the Board

B. R. O'Malley, President and Chief Executive Officer

January 12, 1981

Financial Review

William L. Paton, Vice President Finance and Treasurer

During 1980 Standard continued to diversify its asset mix through the gradual de-emphasis of the proportion of assets assigned to mortgage loans. While such loans still dominate assets on the balance sheet, they now account for 73% of total assets compared with 81% in 1979 and 87% in 1978.

An investment strategy, developed to permit short-term investment in common stocks funded by short-term deposits, was so successful that we increased the proportion of funds invested in stocks to 10.8% compared with 10.5% in 1979 and 4.6% in 1978.

The most notable change in our traditional asset mix was the introduction in 1980 of an investment of $28,350,000 in real estate assets. The main portion of these assets was acquired through the purchase of Rollins Construction Ltd.

As is to be expected from the figures noted above, gross revenue from mortgage loans declined to 73% of total revenue and income from investments increased to 18% compared with 83% and 15% respectively in 1979.

One of the accounting consequences of the formation of Standard Trustco Limited as the holding company for Standard Trust is that the $4,000,000 preference share issue of Standard Trust is classified as part of the minority interest on our balance sheet. Previously it was included in our capital stock accounts. This reclassification results in an apparent ratio of liabilities (including minority interest) to capital of 25.5:1 as compared with 19.6:1 in 1979, and focuses attention on the level of leverage that is appropriate for Standard Trustco.

It is obvious that leverage and risk go hand-in-hand, but that is not to say that leverage and risk are synonymous. They are separate elements and deserve consideration as such before an assessment of the appropriateness of a leverage ratio is made.

Because of Standard's matching policy, our exposure to risk due to interest rate fluctuations has become minimal. Our security portfolio is subject to the normal market risks, but risks are only of concern if one is forced to sell at values below the cost of the securities. We believe it to be very unlikely that Standard would find itself in such a position.

Our mortgage assets are carefully screened as to quality and compliance with legal limitations. Based on our experience, and acknowledging the continuation of inflation on the price of real estate, we believe our mortgage portfolio to have a low risk of loss.

In summary, we conclude that Standard's risk exposure is at the bottom of the range of exposure accepted by financial institutions, a conclusion which is ruefully supported by the slim margin of profit which we can command on most of our business. It follows from this conclusion that since our risk is low, our leverage can be high without exposing shareholders to undue concern over the safety and stability of their investment. Therefore it is the intention of management to test, to the fullest extent prudently possible, the maximum leverage ratio that the market place will allow.


Total assets
$ MILLIONS
1980-351
1979-253
1978-185
1977-129
1976-113
Net operating income
$ THOUSANDS
1980-2,010
1979-1,305
1978-757
1977-532
1976-442
Shareholders' equity
$ MILLIONS
1980-13.2
1979-12.3
1978-7.3
1977-5.3
1976-4.9

Branch Operations

James Wood, Vice President

Success in 1980 also applied to the growth of our financial services. Our Guaranteed Investment Certificates, Debentures, Savings and Term Deposits now total $294,382,181 compared with last year's $226,853,483, an increase of 30%. In spite of numerous interest rate changes, GIC and Debenture sales totalled $54,519,403, compared with $71,693,413 in 1979.

Almost 63% of our GIC's and Debentures were sold through our many agents and correspondents. We appreciate this business and will continue to support the many financial advisors who represent us throughout Canada.

Our savings/chequing One-Account continued to be very popular and increased in 1980 by $9,567,902, or 44%. Early in 1980, savings deposits were slow due to economic conditions, but increased substantially after our 'Win a Trip to Britain' campaign held in May and June.

In view of market conditions, we took a more active role in the short-term money market, resulting in term deposits increasing by $15,877,519 in 1980 compared with $990,256 in 1979.

Standard Trust played a greater role in community activities through branch managers and their staff. We were involved in festivals, competed in local plowing matches and contributed to local agricultural programs.

Full-service offices were opened in Beamsville in March and in Blenheim in April. The Beamsville branch, managed by Eric G. Smith, M.T.C.I., expands our services throughout the Niagara Peninsula, while the Blenheim branch, managed by Clare D. Laliberte, expands our representation in the south-west region of the province.

Douglas Bossence, Manager of our Chatham office, was appointed Regional Manager, responsible for the activities of our Chatham, Essex, Blenheim, Woodstock and Paris branches. Pamela Werner, Business Development Officer, Toronto, was appointed Regional Manager, responsible for the Toronto, Brampton, Markham, Picton and Perth branches.

Future development in Ontario includes a relocation of our Hamilton representative office to the Stelco Tower in Jackson Square in January. A new savings office will be opened in Port Perry in April and several locations for new branches are being considered.

The appointment of Dan L. Catton as Regional Manager of our Western Region confirms our intention to establish a strong operation in Western Canada. A representative office will be opened in downtown Regina to serve Saskatchewan, with further development planned for Alberta.

The appointment of Maureen Gowans as Manager of our Income Averaging Annuity Contract Division marks the introduction of a new service in the tax shelter area. Special income situations, such as capital gains, stock options, farm sales, retirement allowances may be spread over a period of 15 years for tax purposes through an I.A.A.C. We will lend 95% of the single premium, allowing the annuitant to re-invest this portion of his funds. This allows taxpayers to spread income and deduct the loan fee and interest, thereby saving tax and utilizing funds for investment at current interest rates.

Top: Gladys M. Huffman, Mayor of Beamsville, completes the ribbon cutting ceremony at the opening of our new Beamsville branch, while Standard Trust President, Brian O'Malley, and Branch Manager, Eric Smith, look on. **Above:** Mrs. Jean Embury and Mr. Jack Kerr (left, standing) of the law firm Kerr, Wood doing business with Clare Laliberte, Manager (sitting) of our new Blenheim Office, along with our Director, Mr. Wes Thompson. **Right centre:** Mrs. Carole Knight, winner of our Win-A-Trip-to-Britain Savings Campaign, being presented with her British Airways ticket by Larry Aldebert, Manager, Brampton Office. **Right:** The Company's booth at the Brampton Fair, September 1980.

Mortgage Operations

Kenneth Lucas, Vice President

Growth of our mortgage portfolio continued in 1980 and it now totals $256,939,630 compared with $205,384,633 in 1979, an increase of 25%. New mortgage commitments for the year exceeded $110,000,000, an increase of 28% over 1980; 89% involved residential properties.

Continued emphasis was placed on the development of our construction loan portfolio. Commitments are issued on a floating-rate basis usually for a term of a year or less, consequently this type of loan is a very profitable 'match' for our savings deposits. These loans cover a diversity of projects, including shopping centres, nursing homes and income-producing commercial/industrial buildings. A large portion of the growth in this portfolio came from financing of construction of single-family housing in Alberta, where demand continues to be brisk despite the highly undesirable interest rate scenario of the past year. We expect to double the size of this profitable portfolio in 1981.

With mortgage demand in Ontario continuing to be 'soft', increased emphasis was placed on developing the mortgage product available in Alberta. A mortgage production branch was opened in Calgary early in 1980 and it has been an important factor in the growth and diversity of our portfolio.

Personnel continued to be the strength of our mortgage operation and the following management appointments were made in 1980: Mr. Bruce Stewart as Commercial Mortgage Manager, Toronto; Mr. Brian Hammond, Western Area Manager, Edmonton; Mr. Gary Meger, Mortgage Manager, Willowdale; Mr. Donald Coad, Mortgage Manager, Calgary; Mr. Douglas Sedore, Mortgage Administration Manager, Toronto.

To support our continued growth, a new automated mortgage processing system was installed in October. This enabled us to fully convert our mortgage portfolio and gave us a fully-automated processing system effective January, 1981. The system consists of an in-house mini-computer which can comfortably handle our present accounts with the capacity to support anticipated future needs.

The information stored on the system can be immediately accessed through video display terminals allowing us to improve the quality and speed of our client service.

The system was chosen for its ability to handle our current mortgage processing and reporting functions, the ease by which the programs can be modified to handle the diverse types of mortgage product now being offered, and the modular structure of the programming which allows for additional functions, such as accounting, deposit handling and investment administration. An important feature allows us to add direct communication to our branches in Western Canada, to allow close monitoring and therefore improve our ability to 'match' the increasing volume of new mortgage commitments. Overall, the system will provide a more accurate and efficient method of handling present and future administrative needs.

Despite the uncertainties of the Canadian economy, we are confident of our ability to identify and develop the ample opportunities available to us for continued profitable growth of our mortgage portfolio.

Top: The Hamilton Gardens Shopping Centre, Hamilton, Ontario, for which your company provided construction financing. **Above:** Chateau Gardens Nursing Home, Niagara-on-the-Lake, Ontario, is covered by a competitive Standard Trust Company mortgage. **Right:** This attractive home in Calgary, Alberta, was constructed under a contractor's mortgage from Standard Trust; later the Company provided the purchaser with a residential mortgage.

Real Estate Operations

Edward T. Mulkins, President, Standard Trustco Development Corporation Limited

Standard Trustco Development Corporation Limited was formed in 1980 for the purpose of equity investment in real estate projects where our studies indicate that the risk reward ratio is favourable to the Company and when we, the investor, can expect to receive a higher than average rate of return. Your Company examined more than 200 projects and the final selections were:

A 50% interest in a 50,000 square foot studio/office complex in downtown Toronto. This building is now 90% rented and income increased during the first year by close to 30%. This increase of cash flow directly affects the value of the building.

The Native Sun Hotel in Pompano Beach, Florida. This hotel was purchased and re-zoned into a time-sharing condominium by Stanco Development Corp. This is a new type of real estate investment which allows a purchaser to buy a condominium for use a week at a time, resulting in a reduced purchase price for the purchaser and reduction in his management and maintenance costs. All approvals have now been obtained and the final documentation completed for sale to purchasers.

Maurice H. Rollins Construction Limited was acquired in August. The Company has been in business for 25 years in Eastern Ontario and has major holdings in many centres to be developed over the next eight years. The holdings consist of apartment buildings, condominium units, single-family dwellings and major land tracts for residential and high-rise construction. Your Company acquired 60% of Rollins Construction and a 40% interest was acquired by Quintco Construction Limited.

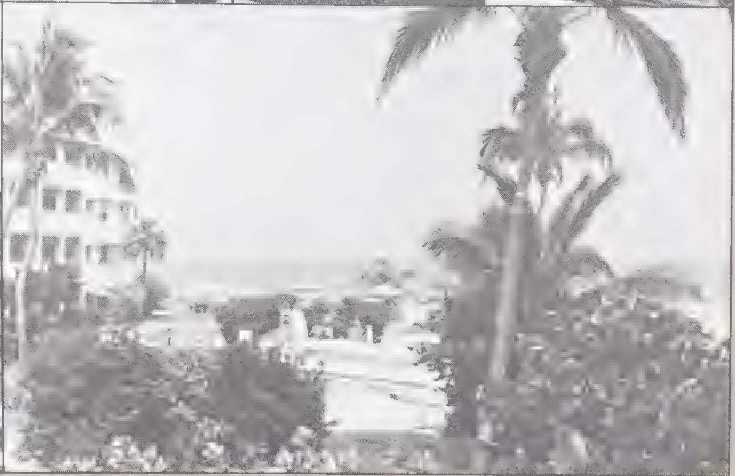
The three owners of Quintco Construction Limited have since relocated to Belleville and are carrying on as the operating partners in all of the Company's day-to-day operations. The separate skills of these individuals—chartered accountant, analyst, and construction superintendent—are invaluable to the operation of our partnership.

Your Company entered into a joint development agreement with a Toronto company to develop 20 exclusive condominium units on the ocean at Ocean Walk in Florida. Construction is now underway.

We acquired 42 townhouse MURB units in Mississauga, Ontario. These units are 85% completed and bids are now being received for completion in time for sale as MURB's during 1981.

Late in 1980 we entered into an agreement as a joint venture partner with a local builder. The new company is acquiring residential properties in downtown Toronto and rebuilding them into fully modernized accommodations. Four homes are presently under construction.

During 1981, we intend to continue looking for investments which offer a higher than normal rate of return. However our efforts will be directed more towards sole acquisitions rather than the joint development style used during our first year of operation.



Top: Bay Terrace, Belleville, Ontario, contains 118 apartments and was developed by Maurice H. Rollins Construction Limited in which Standard Trustco Development Corporation Limited acquired a 60% interest in 1980. **Above:** University Village, Peterborough, Ontario—25 attractive townhomes developed by Maurice H. Rollins Construction Company Limited. **Right:** Formerly a hotel, this building in Florida was purchased and re-zoned as a time-sharing condominium by Stanco Development Corp.

Consolidated Statement of Income

Years ended December 31 (note 1)	1980	1979
Revenue:		
Interest on mortgages	$25,822,887	$19,446,917
Income from investments	6,244,968	3,417,274
Real estate revenue	2,812,220	—
Fees and commissions	293,028	220,815
Other	459,265	302,648
	35,632,368	23,387,654
Expenses:		
Interest on deposits and certificates	26,758,152	18,694,162
Interest on term debt	81,478	—
Real estate expenses (excluding interest)	2,687,244	—
Staff salaries and benefits	2,058,239	1,364,834
Other operating expenses	2,352,681	2,076,230
	33,937,794	22,135,226
Operating income before income taxes	1,694,574	1,252,428
Income taxes:		
Current	3,023	2,277
Deferred	(318,482)	(54,577)
	(315,459)	(52,300)
Net operating income	2,010,033	1,304,728
Gain on sale of securities less deferred income taxes of $33,231 (1979 — $45,400)	2,497	11,560
Net income before minority interest	2,012,530	1,316,288
Minority interest	327,818	—
Net income	$ 1,684,712	$ 1,316,288
Earnings per common share	$ 3.22	$ 2.74

Consolidated Statement of Retained Earnings

Years ended December 31 (note1)	1980	1979
Balance at beginning of year	$ 3,578,788	$ 2,631,166
Add net income	1,684,712	1,316,288
	5,263,500	3,947,454
Deduct:		
Dividends on preference shares	—	114,013
Dividends on common shares	500,320	250,198
Share issue expense, net	—	4,455
Minority interest adjustment on share exchange (note 1)	13,040	—
	513,360	368,666
Balance at end of year	$ 4,750,140	$ 3,578,788

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

Assets — Years ended December 31 (note 1)	1980	1979
Cash	$ 2,131,259	$ 1,438,853
Term deposits and short-term notes	13,246,545	12,562,323
Securities (note 4):		
Bonds	5,851,073	4,497,401
Stocks	37,878,715	26,615,361
	43,729,788	31,112,762
Mortgages receivable	256,939,630	205,384,633
Real estate (note 5)	28,350,137	—
Accounts receivable and other assets	5,042,921	1,550,837
Premises, equipment and leasehold improvements (note 6)	1,522,139	647,429
	$350,962,419	$252,696,837

Liabilities	1980	1979
Customer deposits (note 7):		
Demand deposits	$ 31,116,066	$ 21,548,164
Term deposits	20,245,114	4,367,595
Guaranteed investment certificates and debentures	243,021,001	200,937,724
	294,382,181	226,853,483
Bank indebtedness (note 8)	9,426,497	—
Accounts payable and accrued expenses	6,333,266	1,156,259
Blanketed mortgages payable	9,026,862	10,886,350
Term debt (note 9)	12,265,442	—
Deferred income	1,209,685	351,564
Deferred income taxes	613,406	1,154,842
Minority interest (note 10)	4,482,120	—
Shareholders' equity:		
Capital stock (notes 1 and 11):		
Preference shares	—	4,000,000
Common shares	5,837,522	4,188,545
Contributed surplus	2,635,298	527,006
Retained earnings	4,750,140	3,578,788
Total shareholders' equity	13,222,960	12,294,339
	$350,962,419	$252,696,837

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

Consolidated Statement of Changes in Financial Position

Years ended December 31 (note 1)	1980	1979
Funds provided by:		
Increases in:		
Demand deposits	$ 9,567,902	$12,523,619
Term deposits	15,877,519	990,256
Guaranteed investment certificates and debentures	42,083,277	47,520,711
Blanketed mortgages payable	—	444,135
Decrease in bonds	—	488,896
Issuance of preference shares	—	4,000,000
Issuance of common shares	3,816,879	35,506
Deferred income	608,121	351,564
Accounts payable and accrued expenses	1,638,606	—
Other	—	171,436
Operations (before deferred income taxes, provision for losses, depreciation, minority interest and other non-cash items of $294,944 (1979 — $397,018))	1,979,656	1,713,306
	75,571,960	68,239,429
Funds applied to:		
Increases in:		
Stocks	11,263,354	18,182,279
Mortgages receivable	50,867,684	44,048,087
Bonds	1,353,672	—
Dividends paid	500,320	364,211
Dividends paid to minority shareholders	330,326	—
Additions to premises, equipment and leasehold improvements	354,128	482,299
Real estate	3,922,355	—
Decrease in blanketed mortgages payable	1,859,488	—
Decrease in term debt and bank indebtedness	1,611,386	—
Purchase of net assets of subsidiary (note 3)	600,000	—
Accounts receivable and other assets	1,532,619	—
	74,195,332	63,076,876
Increase in cash, term deposits and short-term notes	$ 1,376,628	$ 5,162,553

Consolidated Statement of Contributed Surplus

Years ended December 31 (note 1)	1980	1979
Balance at beginning of year	$ 527,006	$ 510,085
Premium on issue of common shares of Standard Trust Company (note 11)	2,123,133	16,921
	2,650,139	527,006
Less minority interest adjustment on share exchange (note 1)	14,841	—
Balance at end of year	$ 2,635,298	$ 527,006

See accompanying notes to consolidated financial statements.

1. Corporate Organization

Standard Trustco Limited was incorporated under the Ontario Business Corporations Act in 1971 under a different name and for different purposes. Since December 1, 1979 the company has been inactive and had nominal assets and issued capital. On September 15, 1980 the company's articles were amended to change its name to Standard Trustco Limited and to change its authorized capital as follows by:

(i) Subdividing the 4 previously issued common shares into 300 common shares;

(ii) Cancelling the 3,600 unissued 6% preference shares with a par value of $10 each;

(iii) Increasing the authorized capital of the company to consist of the following:

500,000 First Preference Shares with a par value of $20 each, issuable in series;

500,000 Second Preference Shares with a par value of $20 each, issuable in series; and

2,000,000 common shares without par value.

Pursuant to an offer made on October 20, 1980 the company obtained 99.44% of the common shares of Standard Trust Company through a share exchange whereby 1 common share of Standard Trustco Limited was issued in exchange for each common share of Standard Trust Company tendered. This exchange established Standard Trustco Limited as the parent company of Standard Trust Company and its subsidiaries and did not result in any change in the consolidated assets, liabilities and common share equity of the group. The net assets of Standard Trust Company have been recorded by Standard Trustco Limited at their book value at the date of the share exchange. Except for the nominal assets of Standard Trustco Limited, the assets, liabilities and operations included in these financial statements are those of Standard Trust Company. Because this share exchange has been accounted for as a pooling of interest, the operations of Standard Trust Company have been included in these financial statements for the entire year. The comparative figures disclosed in these financial statements are those of Standard Trust Company.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and those of particular significance are set out below:

(a) Accounting Presentation

The consolidated financial statements include the accounts of the company and all of the subsidiaries as follows:

	% Ownership
Standard Trust Company	99.44
Standard Loan Company	98.90
Stanco Development Corporation	99.44
Standard Trustco Development Corporation	99.44
Rollins Construction Ltd.	59.66

The results of operations of the subsidiaries are included in the consolidated financial statements from the respective dates of incorporation, acquisition or combination.

Investments in 50% owned companies and in joint ventures are accounted for using the equity method.

(b) Securities and Mortgages

Bonds and mortgages are stated at amortized cost. Stocks are stated at cost. Gains and losses are recorded only upon realization of these investments except where there is a decline in value which is other than temporary, at which time a provision for loss is made.

(c) Real Estate

Land held for development and housing units completed and under construction include the cost of land, land improvements, building construction costs, initial leasing costs and all carrying costs such as mortgage and bank interest, realty taxes, legal fees and other direct expenses. The company provides for any costs which are not recoverable. Accordingly, the carrying value of these inventories is less than estimated realizable value.

Rental properties are recorded at cost less accumulated depreciation. Depreciation is based on the estimated useful life of the assets, calculated on a 5% sinking fund basis. Under this method the depreciation charged against earnings is an amount which increases annually and comprises a predetermined fixed sum and 5% compound interest.

Inventory of construction materials is recorded at the lower of cost and replacement cost.

(d) Premises, Equipment and Leasehold Improvements

These assets are stated at cost. Depreciation is based on the estimated useful life of the assets, calculated on a straight-line or diminishing balance method as considered most appropriate for each type of asset

(e) Income Taxes

Income taxes are provided on reported income in accordance with the tax allocation method. Under this method deferred income taxes are recorded for timing differences between reported and currently taxable income. No recognition has been given to the tax loss carry forwards of a subsidiary company as there is no virtual certainty of realization of these losses.

After excluding non-taxable dividend income from net income for the year, the company has a tax loss for accounting purposes.

(f) Recognition of Revenue and Expenses

(i) Investment income and interest expense are recorded on the accrual basis. Premiums and discounts on bonds and mortgages are amortized to income over the term to maturity.

(ii) Commissions and finders' fees paid on the sale of guaranteed investment certificates and debentures or acquisition of mortgages are deferred and amortized by charges to income over the terms of the certificates and mortgages.

(iii) Income from the sale of options on investments owned by the company are amortized to income over the period of the option contract.

(iv) Fees and commissions are recorded as income when received.

(v) Real estate

Revenue from the sale of single or semi-detached housing is recognized when each house is completed and title passes to the purchaser.

Revenue from the sale of condominiums is recognized when (i) the amount due on closing is received and (ii) the purchaser is entitled to occupancy and undertakes to accept responsibility for payment of the balance of the purchase price.

Revenue from rental properties is recognized commencing from the time 70% occupancy is achieved, subject to the expiration of a reasonable period after substantial completion. Prior to this time, all operating and carrying costs, less rental revenue, are capitalized as costs of the project.

Revenue from the sale of land is recognized when all material requirements relating to the sale agreement have been met and when risks of ownership have been transferred to the purchaser.

Income from construction contracts in progress is recorded on the percentage of completion method whereby the percentage of the

estimated final income is calculated in the relation to the progress to date of the project. When the current estimated costs to complete indicate a loss, such losses are recognized in the accounts.

(g) Earnings per Common Share
Earnings per common share have been computed on the basis of a weighted average of 523,603 common shares outstanding during the year (1979 — 417,314). The exercise of options outstanding would not materially dilute earnings per common share.

3. Acquisition

Effective August 19, 1980 a subsidiary company of Standard Trust Company and another party acquired 100% of the common shares of Maurice H. Rollins Construction Limited and certain other related assets and liabilities, real property and shares of affiliated companies. Subsequently, on September 30, 1980 the subsidiary company, two other unrelated companies and Maurice H. Rollins Construction Limited amalgamated to form Rollins Construction Ltd. with Standard Trust Company's interest in common shares therein amounting to 60%.
The cash consideration for this purchase amounted to $1,000,000, of which $600,000 was paid by the subsidiary of Standard Trustco Limited and $400,000 was paid by the other party. The vendor took back notes payable of two of the amalgamating companies in the amount of $1,000,000 and the acquired company assumed a mortgage and notes payable to the vendor in the amount of $3,000,000.
This acquisition has been accounted for by the purchase method with effect from September 30, 1980, the fiscal year end of the acquired company. The cost of this acquisition has been allocated as follows:

Net assets acquired, at fair value:	
Mortgages receivable	$ 817,819
Real estate	24,427,782
Accounts receivable and other assets	1,959,465
Deferred income taxes	244,207
Premises, equipment and leasehold improvements	642,453
	28,091,726
Deduct:	
Bank indebtedness	8,625,007
Accounts payable and accrued expense	3,538,401
Term debt	10,678,318
Deferred income	250,000
Mortgages and notes payable to vendor	4,000,000
	27,091,726
Net assets	1,000,000
Net assets attributable to minority common shareholders	400,000
Cash consideration	$ 600,000

4. Securities

Cost and market values, including accrued interest:

	1980		1979	
	Cost	Market	Cost	Market
Bonds:				
Government of Canada	$ 112,127	78,684	212,900	184,869
Provinces of Canada	4,061,506	2,704,809	4,150,883	3,179,706
Corporate	1,677,440	1,733,523	133,618	108,713
	5,851,073	4,517,016	4,497,401	3,473,288
Stocks	37,878,715	34,258,483	26,615,361	25,377,333
	$ 43,729,788	38,775,499	31,112,762	28,850,621

5. Real Estate

Housing units completed and under construction	$ 15,950,929
Land held for development	7,062,644
Inventory of construction materials	734,994
Rental properties — at cost less accumulated depreciation of $1,793	1,969,096
Investments in and advances to 50% owned companies and joint ventures	2,632,474
	$ 28,350,137

During the year the following net costs were capitalized to real estate:

Interest	$ 339,476
Real estate taxes	26,832
Development and leasing costs	793,205
Rental recoveries	(36,225)
	$ 1,123,288

6. Premises, Equipment and Leasehold Improvements

These assets are stated at cost less accumulated depreciation of $412,796 (1979 — $291,806). Depreciation and amortization charged to income amounted to $120,078 (1979 — $65,594).

7. Assets of the Guaranteed Trust Fund

As at December 31, 1980 customer deposits include $288,083,072 (1979 — $226,853,483) accepted for the Guaranteed Trust Fund. Assets segregated to secure these deposits are as follows:

	1980	1979
Cash	$ 88,055	251,549
Term deposits and short-term notes	9,943,606	11,940,224
Securities:		
Bonds	4,277,174	2,903,253
Stocks	26,728,953	16,879,596
Mortgages	247,045,284	194,878,861
	$ 288,083,072	226,853,483

8. Bank Indebtedness

Bank indebtedness consists of operating loans and overdraft and project loans of a subsidiary company bearing interest at prime rate plus 1% to 2% and payable on demand. The bank indebtedness is secured by general assignment of book debts, pledge of inventory of construction materials, mortgages on certain real estate properties, fixed charge debenture on certain properties and a floating charge debenture in the amount of $2,800,000 on all the assets of the subsidiary company.

9. Term Debt

Mortgages payable, 6% to prime rate plus 2%	$ 9,540,442
Notes payable, 10¾% and 13%	2,725,000
	$ 12,265,442

Approximate principal repayments on the aggregate term debt are:
1981 — $2,063,875
1982 — 1,121,195
1983 — 1,099,343
1984 — 1,946,183
1985 — 2,168,573
Thereafter — 3,866,273
The notes payable are secured by a mortgage on certain real estate property.

10. Minority Interest

Minority interest in subsidiary companies:

Common shareholders	$ 482,120
Preference shareholders	4,000,000
	$ 4,482,120

Minority interest of preference shareholders represents 200,000 cumulative redeemable preference shares of $20 par value per share of Standard Trust Company, issued for cash consideration of $4,000,000 in 1979 to a Canadian chartered bank. The subsidiary company has agreed to redeem the preference shares commencing in 1985 in an amount not less than 20% of the shares issued and continuing annually until all such shares have been redeemed. The subsidiary company has the option of redeeming the whole or any part of the preference shares at any time. In each case, the redemption price shall be equal to par value plus all accrued and unpaid dividends thereon.

11. Capital Stock

(a) Preference Shares
The company is authorized to issue 500,000 First Preference Shares and 500,000 Second Preference Shares each with a par value of $20, issuable in series. No shares have been issued.

(b) Common shares
The company is authorized to issue 2,000,000 common shares without par value. 583,293 shares have been issued and are outstanding as at December 31, 1980.
Details of common shares issued by Standard Trustco Limited during the year are as follows:

	Number	$
Beginning of year	300	4
In exchange for shares of Standard Trust Company	582,594	5,825,298
To employees	399	12,220
End of year	583,293	5,837,522

During the year, prior to the share exchange effective November 24, 1980, the subsidiary company, Standard Trust Company, issued the following common shares:

	Capital stock		Contributed surplus
	Number	$	$
On exercise of rights granted to shareholders	142,224	1,422,240	1,909,187
Under dividend reinvestment and share purchase plans	12,328	123,281	206,241
On exercise of stock options	12,500	125,000	7,705
	167,052	1,670,521	2,123,133

Options to purchase common shares of the capital stock of the company are outstanding as follows:

Number of shares	Option price per share	Expiry date
4,500	11.48	1982
6,000	12.00	1982, 1983, 1984
2,250	12.15	1983
3,350	16.53	1984
5,250	17.10	1984
8,183	23.50	1982, 1983, 1984
18,900	28.80	1985
48,433		

In addition, under an incentive plan for certain officers, a maximum of 38,000 shares are reserved for issue under options granted, subject to various minimum returns on equity in any fiscal year to 1984. The option price will be 90% of the market price of the shares at the end of the fiscal year in which the incentive level is reached, and the options will expire 5 years after that date.

12. Commitments

Contractual obligations in respect of operating leases expiring at various dates up to 1989 amount to $1,792,000 at December 31, 1980. The future minimum payments under the terms of such leases for the next five years are as follows:
1981 — $284,000
1982 — 253,000
1983 — 206,000
1984 — 184,000
1985 — 174,000

13. Contingent Liabilities

The company is contingently liable under guarantees and a contract performance bond which arise in the normal course of business. In the opinion of management any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the company.

14. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers of the company amounted to $461,631 (1979 — $351,577).

15. Segmented Information

At the present time substantially all of the company's business activities pertain to the investment of shareholder funds and funds provided from customer deposits in securities, mortgages and other securities. Accordingly, these financial statements do not set out separately the results of operations, or assets utilized in other business activities.

Auditors' Report

To the Shareholder of Standard Trustco Limited

We have examined the consolidated balance sheet of Standard Trustco Limited as at December 31, 1980 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.
In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co., Chartered Accountants
Toronto, Canada, January 12, 1981.

Five Year Summary*

	1980	1979	1978	1977	1976
Operating results					
Revenue	$35,632,368	$23,387,654	$15,726,017	$11,613,280	$9,745,168
Expenses	$33,937,794	$22,135,226	$14,707,470	$10,918,203	$9,162,367
Net operating income	$ 2,010,033	$ 1,304,728	$ 757,347	$ 532,377	$ 442,001
Year-end Position					
Total assets	$350,962,419	$252,696,837	$185,108,543	$128,716,090	$112,563,546
Total mortgages	$256,939,630	$205,384,633	$161,677,146	$114,087,611	$100,158,001
Total securities	$ 43,729,788	$ 31,112,762	$ 13,419,379	$ 9,591,078	$ 9,086,506
Total deposits	$294,382,181	$226,853,483	$165,818,897	$111,732,087	$ 94,183,000
Shareholders' equity	$ 13,222,960	$ 12,294,339	$ 7,311,211	$ 5,325,599	$ 4,924,300
Dividends paid on common shares	$ 500,320	$ 250,198	$ 107,188	$ 74,436	$ 59,549
Weighted average number of common shares outstanding	523,603	417,314	378,672	297,744	297,744
Per common share					
Net operating income	$ 3.21	$ 2.72	$ 2.00	$ 1.79	$ 1.48
Net income	$ 3.22	$ 2.74	$ 2.04	$ 1.79	$ 1.48
Dividends paid	$ 1.00	$ 0.60	$ 0.30	$ 0.25	$ 0.20
Shareholders' equity	$22.67	$19.67	$17.53	$17.89	$16.54

*Figures for 1979 and previous years are those of Standard Trust Company.

Standard Trustco Limited 69 Yonge Street, Suite 200, Toronto, Ontario. M5E 1K3

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President, Kates-Duncan & Associates Ltd., Toronto, Ontario

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Chairman, Koyl Agencies Ltd., Saskatoon, Saskatchewan

*†E. Bruce McConkey, C.A.
Vice President Finance, Denison Mines Limited, Toronto, Ontario

Susan McCutcheon, B.A.
Treasurer, Pentastar Inc., Toronto, Ontario

Harvey McFarland
Vice President, Loch-Sloy Holding Ltd., Picton, Ontario

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President and Chief Executive Officer, Standard Trustco Limited, Toronto, Ontario

*†William L. Paton, C.G.A., M.T.C.I.
Vice President Finance and Treasurer, Standard Trustco Limited, Arden, Ontario

J. A. (Joe) Perkins, Jr.
President, Taggart Services Limited, Perth, Ontario

George Rodanz
President, Ringwood Farms Limited, Thornhill, Ontario

Helen Roman-Barber, Ll.M.
Vice President and Director, Roman Corporation, Toronto, Ontario

Wesley D. Thompson
President, W. G. Thompson & Sons Ltd., Blenheim, Ontario

*†Bertram E. Willoughby, B.S.A., P.Ag., F.R.I., C.R.E.
Chairman of the Board, A. E. LePage (Ontario) Ltd., Belfountain, Ontario

The Honourable Eric A. Winkler
Secretary Treasurer, Gateman Coach Lines, Hanover, Ontario

•Directors of both Standard Trustco Limited and Standard Trust Company
*Executive Committee
†Audit Committee

Officers

Standard Trustco Limited

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President and Chief Executive Officer

Bertram E. Willoughby, B.S.A., P.Ag., F.R.I., C.R.E.
Vice President

William L. Paton, C.G.A., M.T.C.I.
Vice President Finance and Treasurer

James Wood, M.T.C.I.
Vice President

Kenneth Lucas
Vice President

Kathleen Mawson
Secretary

James W. McMahon, B.Comm., C.G.A., M.T.C.I.
Assistant Treasurer

Vera N. Horniak, A.T.C.I.,
Assistant Comptroller

Trevor Pereira
Manager, Precious Metals Department

Standard Trust Company

Honourary Director
The Honourable W. Earl Rowe, P.C., Ll.D., D.Sc., Soc.
Bradford, Ontario

Mortgage Division
Glenn A. Campbell
Regional Manager for Canada — Residential

Douglas Sedore
Mortgage Administration Manager

Bruce Stewart
Commercial Mortgage Manager

Branch Administration
H. Bruce Miller, M.T.C.I.,
Branch Administration Officer

Income Averaging Annuity Contract Division
Maureen Gowans
Manager

Standard Trustco Development Corporation Limited

Edward T. Mulkins
President

Standard Trust Services

1-Account
Standard Trust's 1-Account offers high interest on savings, plus chequing privileges. Interest is calculated on the minimum monthly balance, and compounded annually. You may write three free cheques each month and if you are a senior citizen, 60 years or over, all your cheques are free. Postage-free envelopes are available for deposits by mail.

Short Term Deposits
Standard Trust pays high interest on funds of $5,000 or more deposited for periods of 30 to 59 days, 60 to 89 days, 90 to 179 days, and 180 to 364 days. Consult your Standard Trust branch manager about the special interest rates available.

Guaranteed Investment Certificates
High interest rates are available to the investor for periods of one to five years on amounts of $500 or more. Interest is payable monthly, half-yearly, yearly, or compounded and paid at maturity. Certificates can be renewed at maturity at prevailing interest rates.

Debentures
Debentures are offered through Standard Loan Company to provide a negotiable investment vehicle. They are offered for one- to five-year terms on amounts of $500 or more. Interest is payable monthly, half-yearly, yearly or compounded and paid at maturity. Debentures can be renewed at maturity at prevailing interest rates.

Mortgage Loans
Mortgages are available on residential, commercial and rural properties at competitive rates. They may be tailored to suit your needs through term and payment structure. Interim financing is also available.

Collateral Loans
The company will make loans on its Guaranteed Investment Certificates presented as collateral. Loans are also available on Income Averaging Certificates and Retirement Savings Plans.

Registered Retirement Savings Plan
Our Guaranteed Retirement Savings Plan offers high interest through five-year Guaranteed Investment Certificates with no administration or management fees. Your tax savings and interest accumulation will add much to your retirement income.

Registered Home Ownership Savings Plans
The way to save for your first home. You may deduct up to $1,000 a year from your taxable income and earn high interest at the same time. Savings may be withdrawn tax-free for the purchase of your first home.

Money Orders and Travellers Cheques
Standard Trust full savings offices have Canadian and foreign funds available for use at home or abroad.

Trustee and Agency Services
Standard Trust Company's Estates, Trusts and Agency Division acts as custodian for pension plans, profit sharing plans, welfare plans and cemetery trust.

Income Averaging Certificates
Reduction of income tax is now possible whenever 'unusual income' such as capital gains, retiring allowances and severance pay, single payment from superannuation or pension funds, is received in any one year by spreading it over a 15-year period and borrowing back most of the single premium. Not only is your income spread, but you are allowed to maximize your return on borrowed funds with a further tax write-off of the loan interest. Should you have 'unusual income', contact a Standard Trust branch manager for details of this service.

Standard Trust Guaranteed Investment Certificates are authorized investments under:

- the Income Tax Act (Canada)
- the Canadian and British Insurance Companies Act (Canada)
- the Foreign Insurance Companies Act (Canada)
- the Pension Fund Society Act (Canada)
- the Loan Companies Act (Canada)
- the Pension Benefits Standards Act (Canada)
- the Pension Benefits Acts of Alberta, Manitoba, Saskatchewan, Ontario and Canada
- the Insurance Acts of Alberta, Saskatchewan, Ontario and Quebec
- the Trust Companies Acts of Alberta and Canada
- the Trustee Acts of Alberta and Ontario
- the Investment Contracts Acts of Alberta, Saskatchewan and Ontario
- the Loan and Trust Corporations Act (Ontario)
- the Municipal Act (Ontario)
- the Alberta Heritage Savings Trust Fund Act
- the Credit Union Act (Alberta)
- the Department of Finance Act (Saskatchewan)
- the Municipal Employees' Superannuation Act (Saskatchewan)
- the Municipal Financing Corporation Act (Saskatchewan)
- the Saskatchewan Housing Corporation Act
- the Charter of the Quebec Deposit and Investment Fund
- the Supplemental Pension Plans Act (Quebec)
- the Loan and Investment Societies Act (Quebec)

Member of the Canada Deposit Insurance Corporation, and Quebec Deposit Insurance Board

Approved lenders for Canada Mortgage and Housing Corporation and Insmor Mortgage Insurance Company
Member of the Trust Companies Association of Canada.

STANDARD TRUSTCO LIMITED

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